

**Transcript of This Week in Defense News Vago Muradian's interview with Secretary of Defense Robert M. Gates**

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**Changing DoD culture**

Q. You came to office with unique experience about how government and bureaucracies work, and shot enough people once on the job to be taken seriously. yet you admit reform has still been difficult. How do you drive lasting change?

A: My sole agenda item [coming to the Pentagon] was Iraq — also Afghanistan, but principally Iraq — and it didn't seem to me that I would have the time to effect any kind of significant change in the culture or the bureaucracy or the way business was done. But I did learn a lot during those first two years about the things that troubled me.

The lesson on what it took to fix the wounded warrior problem at Walter Reed [Army Medical Center], to get [mine resistant ambush protected vehicles] ... to get medevac in Afghanistan ... taught me a lot about the acquisition process and how screwed up it was and what kind of changes were needed.

It also told me that we were buying a lot of stuff that had been in design or development for 10 or 20 years and hadn't been rethought since the original concept in terms of lessons learned.

The Army's Future Combat System was a perfect example of that. The fundamental design of the thing was flawed in my view. The new vehicle is going to be thinly armored and have a flat bottom and count on perfect connectivity in working to provide protection. It just seemed completely unrealistic to me, not to mention outrageously expensive.

I came to see that in other programs as well. So I teed up some of these issues for my successor. And when I stayed on under President Obama, I decided to take on some of these issues. I didn't do it just because I believe in more intelligent management, but because of the nature and scope of the financial crisis facing the country. It seemed to me that it was impossible that DoD would be exempt ... and so we needed to get our heads into the game and begin showing Congress and through them the American people that we could show discipline. And that then led to the program changes that were announced in April of 2009.

So the question is cutting some programs, capping others and so on. The important thing ... in my view, having led three huge public institutions now — the intelligence community, a huge university, and now DoD — is the way you get lasting change is to establish a goal or have a vision and immediately incorporate the professionals in figuring out how you come up with the path to get there.

The first two years I was in the job, I continued [former Defense Secretary Donald] Rumsfeld's practice of having two defense senior leadership conferences a year, focused on a variety of substantive issues. I basically stopped doing that in the Obama administration and converted those into meetings about resources, programs and budgets that included the combatant commanders along with the chiefs [of staff]. We began meeting regularly on all of these programmatic and budgetary issues.

And the thing that has not been commented on, to the best of my knowledge, is the extraordinary cohesion and discipline the building has shown over the last 2½ years in dealing with these really huge issues.

Because the senior military leadership has been deeply engaged in this process, both the chiefs and the combatant commanders, I think, feel they've had the opportunity to make their case, often successfully, but understanding the need to make choices.

They understand because of the budgetary pressures that we're going to ... have to keep moving in this direction. I think that partly because of what we've done over the past 2½ years and partly because of the overall budgetary situation, that you ... are seeing a change in the culture, particularly ... because perhaps to a degree not seen before, the senior military leadership was made a part of the process and were asked to be the ones to come up with the ideas.

I think one of the things that hadn't been done before was ... to tell the chiefs, to tell the services that if you come up with \$100 billion in overhead efficiencies, you can reinvest in your own service in higher priorities. You've got to come up with these cuts, but when you do, I'll let you keep the money. You tell me what you want to reinvest in and I'll give you the political cover to do what you need to do internally.

Q. But that was you. You're leaving. And there are those who might say that your goalposts were changing throughout this period as cut demands started increasing, giving back money to the White House, doing a couple of those things.

A: Well, first of all, the \$78 billion [in cuts over five years proposed by Gates earlier this year], none of that came from the services. That was all found elsewhere. It all came from things like freezing civilian pay for several years, freezing civilian hiring. It came from various changes in acquisitions. Some of it — about \$5 billion — came from some stretch-outs that we had to do programmatically with the F-35 program. So it came from a variety of different pots.

So we were at exactly where I had hoped, where I thought we would be in last fall in terms of \$100 billion in savings that could be reallocated and \$78 billion that the top line would be cut over five years. And I guess what surprised me was then the [White House] request that we come up with another \$400 billion [in savings over 10 years].

That said, I was also mindful that that actually was the lowest number being floated. It seemed to me that if we were given time and could do it thoughtfully and intelligently, we could figure out a reasonable way forward. My hope is that we're putting in place a process that will allow us to do that.

But what I started out to do, over a year ago, a year and a half ago, was ... I told the president we need 2 to 3 percent real growth on the tooth side to sustain force structure and [operations and maintenance]. So what I spent the last 18 months doing is figuring out how I cut enough from the tail. So the tail was actually a negative growth to provide 2 to 3 percent real growth on the tooth side.

[But] I still think, within the framework of what we have to do, we have to figure out a way to have real growth on the tooth side, even if we have to have some changes in the force structure. I don't think there's any way you can get to [\$400 billion in savings] ... that number, much less any of the higher numbers, without changes in force structure.

### **'Third rail': pay and benefits**

Q: Pay, personnel and benefits as well, or you're just merely talking about bodies?

A: There are four ... what we call "bins" where we're going after money. One bin is ... the efficiencies. We can probably get some more there, but it won't even come close [to \$400 billion].

But in terms of consolidating headquarters, cutting overhead and so on, I think there's still room there.

The second is marginal missions and capabilities. Part of it would be duplication, where we have similar capabilities in two services and we don't probably need both. ... why aren't we consolidating those programs across the services and so on. The question is, are there marginal missions and capabilities where we can take some money?

The third [bin is] the politically difficult areas: retirement, health care, compensation. I think the most promising of those is retirement. Before all of the [veterans service organizations] set themselves on fire, obviously, I don't know politically how you would do it other than by grandfathering [current service members and retirees].

But also having an honest conversation ... the truth is 70 to 80 percent of those who serve do not retire and they walk out with nothing. We are way behind the private sector on this. Somebody who served 10 or 15 years, is it fair that they leave with nothing?

The other piece is, from our own standpoint and interest, why are we making it impossibly attractive for a lieutenant colonel — who has 20 years in and has reached maximum productivity, who we have put maximum investment into — to retire instead of trying to structure it so that they're incentivized to stay until 25 or 30 years?

I think those things need to [be] looked at.

On health care, you know, I got it ... because you served, the country owes you a significant break when it comes to health care costs. But even the retiree organizations, for the most part, have said, "OK, we get it on the [Tricare] fee increases." So the real issue is what kind of indexing do you have [for future-year increases in fees].

The fourth bin is the hard one ... looking at our strategies, where can you accept more risk, and then can you reduce force structure? [Brigade combat teams], air wings, ships, and so on. That's the piece where I'm trying to put the brakes on and say, let's ... do this thoughtfully and let's force the president, the Congress, the American people to address the consequences of a smaller military and the additional risks for the country, and are those risks tolerable?

I am totally opposed to the kind of across-the-board haircut that we did in the '70s and the '90s, which

hollows out the entire force, no money to exercise, no money to fly, no money to shoot bullets in training. That is the worst of all possible outcomes. But to do it the other way ... will require some very difficult decisions by people. And I just want to make sure people understand the risks involved.

It's one thing to throw off these big numbers, but if it's going to involve force structure, people need to understand consequences and risks.

Q: To go to the compensation issue for a moment ...

A: That's the one where I think there is maybe the least opportunity and a lot of turmoil.

First year I was in this job, I ran for a 2.5 percent [military] pay raise. And Congress gave me 3. So the next year, I went it with 3 and they bumped it to 3.5. So I kind of got on to the game at that point. By the same token, for '11, we got it down to 1.4. If you're paying an increase of a percent and a half, I'm not sure there's a lot of [savings] to be found there, and second, is it worth it? Is it worth the impact on morale, on families, and so on?

Q: DBut o you need — you served in the 1950s, where you had —

A: The '60s. I'm not that old.

Q: Sorry about that. ... But the fact is the compensation was not anything like it is today. You got the GI bill, but not your wife, your kids. At some point, don't you have to have a national debate and discussion on the appropriate level of compensation for your service, particularly for the guy who's been on four or five combat deployments? And do we need to then do something that addresses the growing civil-military divide, Americans not really understanding the kind of service people are doing?

A: In terms of this divide, both the National Guard and ROTC play such a big role because I think that's what keeps our military connected to communities on a long-term basis. And as the Guard and Reserve [have] become far more operational versus strategic, you've got a lot of young Americans ... [going] back into their communities who know lots of people. And so you have more Americans thanks to the National Guard who know somebody who's served.

A: In a way, what you're suggesting is reopening the question about the volunteer military because all of these issues are attendant to a volunteer military.

You will not find, I don't think, a single general officer who would support going back to conscription. The quality of the force today is just so superior to anything we've ever had, but it is more costly ... because the whole approach to how you take care of families and everything else is completely different.

But I go back to the earlier point ... you're still dealing with a population, even in all-volunteer military, where 70 or 80 percent don't spend a career in it.

### **The fairness issue**

Q: I understand the argument on the fairness. If Jeff serves for 10 years, he should get something for his 10 years of service, as opposed to just a handshake and an extra set of coins on the way out the door. Isn't that then going to exacerbate your cost problem because now you're going to have to pay a certain degree of benefit on his departure that exceeds what you're giving him now?

A: Well, I don't know how you'd structure it, but just off the top of my head ... one approach is some kind of a 401(k).

And I'm just talking off the top of my head — I haven't read a single one of these studies on retirement reform or anything else. But why couldn't you structure it so that, just as a wild example, you have a sliding scale so that the longer you have something like a 401(k) and the longer you stay in, the more the government contributes? So that it isn't the 100 percent [government match] from the very beginning, but Then whatever you have, at five years or 10 years, essentially is portable like a 401(k) and you can roll it to your next employer.

[Then] the longer you stay in, the bigger the percentage the government would pay. And maybe ... the way you keep that 20-year guy in is by saying that beyond 20 years, the government pays 100 percent.

I don't know whether that would work, but I think we need to think more creatively about it to address the actual percentages of those who leave without anything. E

### **The right hardware choices**

Q: Let me take you to hardware for a moment and address something that your critics have said about you, that ...if you went back a few years ago, your complaint of the services was, these guys are too focused on China, buying a whole bunch of systems that we don't need and this is the stuff that we do need and we've got to focus on the task at hand.

GATES: Well, I mean, I'm not frozen in time. The first two years I was here, I couldn't get the military to pay attention to anything but long-term needs, and so how do I get them to focus on the

wars we're in? That was the focus of the first couple of years on the job. They weren't paying any attention to the current wars.

The irony is, once I made all the changes and bought MRAPS and everything else, we were still talking about 10 percent of the budget ... for the wars we were in, for the kinds of equipment we need for the wars we're in.

About 40 percent was basically dual use stuff, C-17s, stuff that no matter what kind of conflict you're in you're going to use. And half the procurement budget was for future wars.

So all I was trying to do for the first time was, in terms of the base budget, get today's wars, and [special operations forces] to the table. We basically have that kind of a focus.

So now we need to focus on ... the systems and capabilities that we need for future conflicts, to have maximum flexibility for the maximum possible range of conflict. That's what I've been talking about for the last year and a half or two years.

We've got to choose among these capabilities because we can't afford them all.

Q: Do you think that ... the services have got to do a much better job to become far more interdependent than they are?

A: The problem that we face is that in these wars we have become incredibly joint operationally, but we've made very little progress in becoming joint in terms of procurement and acquisition.

The Marine Corps and the Army are working together on some UAVs and there are some other examples, but one of the programs that I killed in '09 was a whole new helicopter program for the Air Force for search and rescue. You know how long it's been since we had a pilot shot down? So the main search and rescue that's going on is in fact medevac. ... The Air Force flew something like 9,700 medevac missions last year in Afghanistan. So why were they going to build a brand new search and rescue helicopter that was really only for the Air Force?

#### **Better management**

Q: How important is putting in a chief management officer to help oversee and ruthlessly drive better efficiency into the Defense Department?

A: This is an area where I believe Congress is ahead of us. The Defense Department has been given a deputy chief management officer, and that's where you need the junkyard dog, a person who is utterly ruthless in making sure that the ... services execute the decisions that have been made, whether it's the efficiencies or something else.

This person needs to be very broadly empowered and everybody has to know that person can walk in the door of the deputy or the secretary anytime to get enforcement authority.

All these defense agencies and so on have tended to operate almost autonomously. ... So having somebody who can bird-dog that full-time for the department I think is really important.

Q: When it comes to managing programs, we used to vest enormous authority in guys like Hyman Rickover or Red Raborn to rapidly develop priority projects like nuclear submarines or submarine launched ballistic missiles. Now, we have a far more convoluted process that causes requirements creep, costly oversight and reporting requirements, and pervasive micromanagement all of which drive costs and delays. Should we go back to that earlier approach of more authority and fewer hands?

A: There are two key things and I think Ash [DoD acquisition chief Ashton Carter] has focused on very effectively. One is that except for some extraordinary niche capabilities, we need to focus more on proven technologies when we're developing new equipment.

And it may be new ways of putting those technologies together. But anytime you try and have something that is going to be whole new technologies and it's a system of systems or whatever, you're going to overrun and over-cost. So I think in most cases relying on proven technology is as critical.

The second is freezing the requirements. What kills this — and it's no more complicated than adding a room on to your house — if you change the specs after you sign the contract, it's going to cost you a fortune. Same thing with military equipment.

And so there has to be greater discipline in terms of freezing the requirements and then building what you said you'd build. And I think that this is one of the things that we succeeded in doing with the [Air Force refueling] tanker.

This is the plane you will build, and the contractor saying, yes, and for the price you're paying, we are not adding another thing to this airplane. And the key is for both sides to have discipline.

Q: You've met with defense industry CEOs. Are you concerned that we're going to be buying enough to support an industrial base that's going to be around to satisfy our needs in another 10 or 15 years?

A. The [issue] was, if we stop producing C-17s, we will lose our industrial base for wide-body cargo aircraft. Give me a freaking break. How many people build wide bodies for commercial market today? And so the notion that they have to have a capability that is solely applicable to military purposes, I think doesn't make any sense.

Now, there are some specific areas like shipyards and so on that are a concern when it comes to industrial base, just because there's so little commercial market. But I think we have to identify those that are truly at risk and then see what you can do about that.